VZCZCXRO0249
RR RUEHIK
DE RUEHTC #0596/01 2751600
ZNR UUUUU ZZH
R 021600Z OCT 09
FM AMEMBASSY THE HAGUE
TO RUEHC/SECSTATE WASHDC 3320
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE
RHEBAAA/DEPT OF ENERGY WASHDC

UNCLAS SECTION 01 OF 04 THE HAGUE 000596

SENSITIVE
SIPDIS

E.O. 12958: N/A
TAGS: ENRG EPET PREL NL
SUBJECT: NETHERLANDS: SCENESETTER FOR SPECIAL ENVOY
MORNINGSTAR,S VISIT TO THE HAGUE, OCTOBER 7-9, 2009

THE HAGUE 00000596 001.2 OF 004

¶1. (SBU) SUMMARY: Post warmly welcomes you to The Hague to convene the 2009 Regional Energy Officers Conference. During your stay, you will also meet the Foreign Minister, Economic Affairs Minister, Royal Dutch Shell's Executive Director responsible for Russia/Central Asia, and address Dutch energy industry and policy leaders at the Netherlands' premier think tank. No high-level U.S. official has discussed energy security in the Netherlands (the world's fifth-largest natural gas exporter) in several years. The Dutch fundamentally share our commitment to enhancing Europe's energy security through diverse sources and supply routes. However, we would like the Dutch to take on a more prominent role within the EU to achieve these objectives and avoid backsliding into narrow commercial diplomacy. END SUMMARY.

DUTCH ENERGY OVERVIEW

¶2. (U) The Netherlands' energy position is unique within the EU. It is the world's seventh largest gas producer and the EU's largest net exporter of gas by a wide margin. The Netherlands produces about 14 percent of the natural gas consumed in Europe and has observer status at the recently formed Gas Exporting Countries Forum. Since its discovery in 1959, the giant Groningen field has helped underwrite the Dutch welfare state. (Note: Royal Dutch Shell and ExxonMobil are 50/50 partners in Nederlandse Aardolie Maatschappij (NAM), the country's largest gas producer and 60 percent shareholder of the Groningen field; the Dutch state operator EBN owns the remainder. End note.) The Dutch economy runs on natural gas -- it accounts for 45 percent of primary energy supply and 58 percent of electricity production.

¶3. (U) The Netherlands' gas reserves are forecast to run out by 2030, forcing the Dutch to rethink their energy policy. To remain a regional energy player after its own resources are depleted, the Dutch government is patiently cultivating energy relationships with Russia, Algeria, Kazakhstan, Libya, Qatar, and Angola as long-term supplier countries. The Netherlands wants to develop as a natural gas roundabout -- a hub that gathers natural gas from various sources (North Sea, LNG, Russia) and then distributes it via pipeline to continental Europe.

¶4. (U) The Dutch are also pursuing opportunities to develop gas storage reservoirs. The prevalence of depleted gas fields means the Netherlands has huge storage potential, either for natural gas or carbon dioxide (CCS). Abu Dhabi national energy company TAQA announced in December 2008 it would lead a consortium developing a USD 1 billion, 4.1 billion cubic meter gas storage facility in Bergermeer (in conjunction with Gazprom and EBN) to be operational by 2013. The Dutch oppose EU regulations that would require each EU member state to have adequate gas storage capacity of its own. The Dutch want to provide storage service to others in

the region -- for a price.

¶5. (SBU) The Port of Rotterdam is one of the world's major
centers for crude oil imports, trading, refining, and
petrochemical production. Key oil import sources include
Russia, Saudi Arabia, and Norway. Vitol, Trafigura, and
Shell operate there and export oil to Iran.

¶6. (U) The Dutch want Rotterdam to become an important
destination for LNG as well. Dutch companies Vopak (liquid
storage) and Gasunie (gas pipelines) are teaming up to build
a 12 billion cubic meter (bcm) per year LNG terminal at the
port, due for completion in 2011. TAQA is planning a
sea-based LNG terminal near Rotterdam. On the other side of
Qsea-based LNG terminal near Rotterdam. On the other side of
the country, energy company Essent (now owned by Germany's
RWE) is developing an LNG terminal with Vopak and Gasunie in
Eemshaven, near the German border.

¶7. (U) Despite the GONL's enthusiastic support for strict EU
renewable energy targets, the country derives only 2.5
percent of its total energy supply from renewables, mostly
biomass and wind. Grand plans and subsidy schemes abound for
offshore wind parks in the North Sea, but these have not left
the drawing board.

¶8. (U) The Netherlands has one 485 MW nuclear plant in
Borssele, co-owned by utilities Delta and Essent. Delta
wants to build additional reactors on the same site, but
nuclear energy is a political taboo, and the current
government is reluctant to approve any expansion plans.

¶9. (U) The Netherlands embraced full ownership unbundling of
its electricity and gas utility companies in order to attract
new investment capital and increae competition. Local
THE HAGUE 00000596 002.2 OF 004
government authorities have retained ownership of regulated
network businesses, but foreign energy giants RWE and
Vattenfall acquired the two largest Dutch energy supply and
production companies -- Essent and Nuon, respectively -- in
¶2009. The Dutch government was frustrated when Germany and
France succeeded in watering down the EU's unbundling rules
in favor of national champions.

GASUNIE AND NORD STREAM

¶10. (SBU) Dutch gas pipeline company Gasunie is 100 percent
state-owned, unlike most other European gas infrastructure
companies. The GONL maintains an arms-length relationship
with Gasunie's management, expecting it to operate like a
publicly traded company and earn a reasonable return of
around 7 percent for the government, according to Finance
Minister Wouter Bos.

¶11. (SBU) Gasunie holds a 9 percent stake in Gazprom's Nord
Stream pipeline. This participation was announced during
Prime Minister Balkenende's November 2007 visit to Russia.
Gasunie CEO Marcel Kramer told post the GONL gave positive
feedback to the deal as a way of retaining a significant
role for the Netherlands in Europe's energy equation. To
burnish Nord Stream's image, Gasunie has tried hard to
portray the project as ambitious but realistic; to
characterize Gazprom as driven by commercial concerns, not
political ones; and to leverage the Dutch reputation as
transparent, trustworthy businesspeople.

¶12. (SBU) Gasunie has a 60 percent share in the Bacton
Balgzand Line (BBL), operational since 2006, which transports
natural gas from the Netherlands to the UK (although it is
bi-directional). Belgian gas transport company Fluxys and
German energy giant e.ON Ruhrgas each have 20 percent shares.
In exchange for Gasunie's share in Nord Stream, Gazprom
received an option to buy a 9 percent stake in BBL. If
Gazprom exercises this option, the shares will come from
Gasunie, leaving it with a majority 51 percent. According to
Kramer, Gasunie had to explain to Gazprom that BBL meets EU

rules, meaning the shareholders just own and operate the pipeline but cannot dictate who runs gas through it. Post has heard that BBL did not reverse flow (i.e., send gas from UK to continental Europe) during the winter 2009 Russia/Ukraine gas crisis.

¶13. (U) Gasunie bought BEB Transport -- the gas transport division of a German Shell/Exxon joint venture -- in November ¶2007. BEB's pipelines tie into Gasunie's existing network, linking the Netherlands to northern Germany, Berlin, Denmark, and the landing points for Norwegian gas.

--- ---------
MEETING FOREIGN MINISTER AND ECONOMIC AFFAIRS MINISTER
--- ---------

¶14. (SBU) Foreign Minister Maxime Verhagen and Economic Affairs Minister Maria van der Hoeven constitute an active tag team on energy diplomacy with producer countries as they pursue the Netherlands' vision of becoming a gas hub. Verhagen, a career politician, and Van der Hoeven, an educator before embarking on politics, both belong to the center-right Christian Democratic Appeal (CDA) party, the ruling coalition's largest. When you meet Van der Hoeven, she will have just returned from the Kazakhstan International Oil and Gas Expo and a September 23-26 visit to the U.S. where she met with Energy Secretary Chu. A planned meeting with Commerce Secretary Locke did not happen. Her Ministry of Economic Affairs (MEA) spans energy, commerce, and trade.
Qof Economic Affairs (MEA) spans energy, commerce, and trade.
In the past year, she has visited Angola (March 2009 to lobby for future LNG shipments to Rotterdam), Algeria (January 2009 also for LNG supplies), Russia (December 2008 for broad energy investment), Qatar (October 2008 for LNG), and Saudi Arabia (October 2008 for broad energy investment). Verhagen visited Qatar and Saudi Arabia (May 2009) and Algeria (November 2008) to push for closer economic and energy cooperation as well as human rights.

¶15. (SBU) Under Van der Hoeven's lead, the Netherlands' overarching goals in the energy sector are similar to ours: maintain open markets, ensure diverse and secure supply sources, and develop new and clean alternatives to fossil fuels. As she said in a speech during her recent trip to Washington, The way to improve energy supply security is to build and maintain good relations with energy suppliers ... The solution is a variety of sources and suppliers ... to stimulate an energy mix for Europe that consists of the whole palette: fossil fuels, sustainable energy, and nuclear energy

on a way to sustainable energy. The Dutch support the main points of EU strategic energy policy, especially interconnections. However, they are reluctant to be Europe's producer of last resort in the event of a gas crisis as they plan to draw down their reserves slowly, prolonging the buffer they enjoy by virtue of their domestic production.

¶16. (SBU) We expect Verhagen and Van der Hoeven to raise the following issues:
-- U.S.-EU Energy Council: The Netherlands will want to play an active role in the proposed UEEC and will be eager to hear the U.S. vision for this body.
-- Caspian Basin: The Ministers will be interested to discuss how the United States and the Netherlands can align our energy strategy in the region. They will also want to exchange views on the Caspian Development Corporation.
-- Energy Charter Treaty: Russia's decision to withdraw from the ECT caught the Dutch by surprise. They judge it to be a self-defeating move but will want to maintain other channels of EU-Russia dialogue on energy matters.
-- Turkey/Southern Corridor: Minister Verhagen will likely share the Dutch perspective on Nabucco and relations with Turkey. (Note: Former Nabucco coordinator and Dutch Foreign Minister Jozias van Aartsen is now Mayor of The Hague. End Note.)
-- International Energy Forum: The Dutch have firm advocates of IEF's producer-consumer dialogue. (Note: IEF Secretary General Noe van Hulst is a Dutch national and former DG for

energy at MEA. End note.)
-- Russia: The Dutch acknowledge we have some differences concerning Russia (see below) and will want to discuss them.
-- Iran: The GONL and Shell (see below) are both concerned about proposed U.S. legislation to impose sanctions on companies selling refined products to Iran. They think this will only succeed in giving Chinese and Russian companies access to Iran's hydrocarbon resources at the expense of U.S. and European competitors.

¶17. (SBU) Commercial interests are always central to Dutch economic relations and nowhere is this more evident than with Russia. For example, during President Medvedev's June 2009 visit to the Netherlands, he met with representatives from major Dutch companies including Shell, Phillips, and ING. According to a well-placed MEA official, Prime Minister Balkenende hit if off with Gazprom Chairman (and former Russian PM) Viktor Zubkov during the visit and they agreed that energy and gas cooperation remains central to their relationship. The two countries committed to increasing Russian companies' investment in the Port of Rotterdam, and Russia's Lukoil acquired a 45 percent stake in a Total refinery in south Holland. However, the Dutch are defensive about the clubby atmosphere of these twice-yearly high-level visits. GONL energy officials have told us bluntly in the past, Don't lecture us about Russia. They are especially sensitive to criticism about Nord Stream; MEA took offense at the September 2008 editorial written by the then U.S. Ambassador to Sweden raising objections to the pipeline. Despite close commercial relations with Russia, the GONL supports the so-called Gazprom clause and would likely try to block a Russian takeover of a Dutch utility without reciprocal market access.

SHELL

¶18. (SBU) As Forbes' number two global corporation (after GE), Rotal Dutch Shell exerts strong influence on Dutch foreign economic policy. For example, Simon Smits (MFA's Director for Economic Cooperation whom you will meet October Q7) recently returned from a secondment to Shell's government relations group. Finance Minister Bos also held executive positions at Shell in the 1990s before turning to politics. You will meet Matthias Bichsel, Shell's Executive Director responsible for Russia/Central Asia, on October 9. Large Dutch dredging and energy infrastructure companies such as Boskalis, Van Oord, and Fugro also enjoy substantial political influence.

¶19. (SBU) Shell tries to keep the U.S. government updated on the Persian LNG (PLNG) project. Shell is a minority partner in PLNG and has successfully delayed a final investment decision for several years. Shell wants to keep a foothold

on the project and not let (yet another) lucrative, long-term Iranian energy contract go to China, but knows it cannot move ahead on the project in the current climate. Shell would welcome another UNSC resolution that levels the playing field by imposing broader trade sanctions on Iran and forcing Chinese and Russian firms to comply, thereby reducing the IOCs' competitive disadvantage.

CLINGENDAEL

¶20. (U) Your participation in the Eurasian Energy Security roundtable with Minister van der Hoeven at the Clingendael International Energy Program will send a positive signal about U.S. willingness to engage with European allies on this issue. The audience will include Dutch energy executives and policy makers eager to hear your remarks and ask you questions about U.S. international energy strategy.
LEVIN